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FACT FILE

NALAC

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North American Life and Casualty Co.

Minneapolis, Minn.

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PROFILE: THE INDUSTRY

Today, seven out of every ten American adults, including men and women at all income levels and all ages from 18 and up, own life insurance protection with legal reserve insurance companies.

Nearly 60 per cent of these people have individually purchased life insurance, 25 per cent are protected by group life insurance, and 15 per cent own both types.

At the end of 1966, there were 1,783 U.S. and Canadian companies in the life insurance business. Of the 1,705 U.S. companies, 1,551 were owned by stockholders, and 154 were mutual companies. In a ranking of companies issued during 1967 by The National Underwriter, North American ranked 32nd in life insurance in force among stock companies. The mutual companies, generally older and larger, accounted for approximately three-fifths of the total life insurance in force. However, stock companies have increased their share of total business over recent years.

The growth of the life insurance industry has been outstanding. The $985 billion in life insurance in force at the end of 1966 was 321 per cent greater than the $234 billion at the end of 1950, and 757 per cent greater than $115 billion at the end of 1940.

Among the factors contributing to this rate of growth were the development of specialized policies, higher personal incomes, population growth, and a greater awareness of the need for coverage.

The following table illustrates the growth of major forms of coverage in terms of insurance in force in the United States.

Year	Ordinary (000,000)	Group (000,000)	Other (000,000)	Total (000,000)
1966	538,992	343,362	102,335	984,689
1965	497,630	306,113	96,811	900,554
1964	455,860	252,182	89,766	797,808
1963	418,856	228,540	83,227	730,623
1962	389,150	209,178	77,649	675,977
1961	364,347	192,202	72,944	629,493
1960	340,268	175,434	70,746	586,448
1959	315,953	159,807	66,368	542,128
1958	287,834	144,607	61,120	493,561
1957	264,678	133,794	59,887	458,359
1956	238,099	117,324	57,207	412,630
1955	216,600	101,300	54,432	372,332
1954	198,419	86,395	48,905	333,719
1952	170,795	62,913	42,883	276,591
1950	149,071	47,793	37,304	234,168
1945	101,550	22,172	28,040	151,762
1940	79,346	14,938	21,246	115,530

Source: Life Insurance Fact book

Other interesting features of the life insurance industry are:

Between the end of 1950 and 1966, ordinary life insurance in force increased 262 per cent, and 579 per cent between 1940 and 1966.

Group life insurance in force increased 618 per cent between 1950 and 1966, and 2,199 per cent between 1940 and 1966.

Purchases of all forms of life insurance in the U.S. totaled about $122 billion in 1966, an increase of $8 billion,

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or 7 per cent over the level of purchases in 1965. Purchases of ordinary life totaled approximately $90 billion in 1966, and purchases of group life totaled approximately $26 billion.

By the end of 1965, over 156 million persons were protected by sickness and accident insurance, a 3.3 per cent increase over the previous year. Of this number, 146 million were protected by surgical expense plans, up 3.7 per cent over 1964, and more than 113 million persons were protected by regular medical expense plans, 3.8 per cent more than in 1964.

Some 52 million persons were protected by major medical expense plans at the end of 1965, 10.5 per cent more than at the end of the preceding year.

Approximately 81 per cent of the population now has some form of health insurance protection. As recently as 1940, only about 10 per cent of the population had this coverage.

More than 1,750 voluntary insuring organizations in the U.S. made health insurance protection available to the public in 1965. This total included: 1,007 insurance companies actively issuing health insurance policies; 75 Blue Cross Plans; 75 Blue Shield Plans, and nearly 600 independent-type health insurance plans.

During 1966, the total income of life insurance companies was $358 billion. About 74.0 per cent came from premium payments, 20.5 per cent from investment income, and 5.5 per cent from other sources.

The over-all total increased 7.8 per cent over 1965. Premium income was up 75 per cent, investment earnings increased 8 per cent, and other income was up 8.3 per cent. Premium income during 1966 totaled over $26.5 billion. This included $17.1 billion from premiums for life insurance policies, and $7 billion on health insurance policies.

Assets of U.S. life insurance companies rose $8.1 billion in 1966, or 5.1 per cent, to a record total of $167.0 billion at the end of the year.

The net rate of return on life insurance investments in 1966 was 4.73 per cent before income taxes, compared with 4.61 per cent in 1965.

The following table illustrates the breakdown of income since 1951:

Year	Life Insurance Premiums	Accident & Health Premiums	*Total Premium Income	Investment Income	**Total Income
	(000,000)	(000,000)	(000,000)	(000,000)	(000,000)
1966	$17,160	$6,883	$26,459	$7,342	$35,762
1965	16,083	6,261	24,604	6,778	33,167
1964	15,128	5,613	22,653	6,276	30,674
1963	14,266	5,105	21,113	5,821	28,584
1962	13,215	4,674	19,373	5,044	26,000
1961	12,546	4,327	18,258	4,668	24,397
1960	11,998	4,026	17,365	4,304	23,007
1959	11,487	3,641	16,622	3,879	21,790
1958	10,753	3,294	15,471	3,492	20,249
1957	10,241	3,126	14,775	3,331	19,333
1956	9,592	2,699	13,584	3,063	17,865
1955	8,903	2,355	12,546	2,801	16,544
1954	8,239	2,115	11,563	2,590	15,280
1953	7,778	1,879	10,847	2,353	14,271
1952	7,228	1,561	9,883	2,160	13,076
1951	6,785	1,294	9,040	1,948	12,012

*Includes premiums from annuity policies not shown.
**Includes other income not shown.

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The table below indicates the growth in assets, and the rate of return on invested assets, since 1951:

Year	U.S. Life Company Assets (000,000)	Rate of Return on Invested Funds
1966	$167,022	4.73%
1965	158,884	4.61
1964	149,470	4.53
1963	141,121	4.45
1962	133,291	4.34
1961	126,816	4.22
1960	119,576	4.11
1959	113,650	3.96
1958	107,580	3.85
1957	101,309	3.75
1956	96,011	3.63
1955	90,432	3.51
1954	84,486	3.46
1953	78,533	3.36
1952	73,375	3.28
1951	68,278	3.18

Following is a table illustrating the distribution of invested assets as of the end of 1966:

Type of Investment	Amount Invested (000,000)	Per Cent of Total
Mortgage Loans	$ 64,609	40.6%
Bonds	71,898	45.1
Preferred & Common Stocks	8,755	5.5
Cash & Miscellaneous	14,000	8.8
TOTAL	$159,262	

Mortality Rate

An important factor determining underwriting results is the mortality rate. Although the mortality rate among ordinary life insurance policyholders showed a declining trend during the first half of this century, there has been relatively little improvement since the early 1950's.

During the years 1958 through 1960 the rate remained at 6 deaths per 1,000 policyholders. In 1961 it increased slightly to 6.1 per 1,000; in 1962 it increased again to 6.2 per 1,000, and in 1963 advanced to 6.3 per 1,000.

The rate averaged 7.5 per 1,000 during the 1930's, 6.9 during the 1940's, and 6.1 during the 1950's.

Medical advances during these years accounted for the decline in the rate. However, scientific breakthroughs against cardiovascular-renal diseases and cancer (which currently cause 72.7 per cent of deaths) will be needed before the rate records any further significant decline. Accidents, which are the third ranking cause of death, remained fairly constant during the period 1955-1963, inclusive. In 1966, they accounted for 6.7 per cent of deaths, against 6.6 per cent in 1950.

Insurance Market: The market for life insurance is staggering—one trillion dollars is the amount predicted to be in force in the U.S. in 1970, compared with the $985 billion in force at the end of 1966. A promising future for the industry is seen as a result of the rising standard of living, inflation, increased longevity, gains in new family formation, population explosion, more disposable income, efficient cost controls—all without the negative influences found in other industries: inventory problems, plant and equipment obsolescence, foreign competition and labor problems.

PROFILE: THE COMPANY

Pioneering spirit and profitable growth are key factors in the operations of North American Life and Casualty Company (NALAC). This 71-year-old Minneapolis firm has grown at an astonishing pace in recent years . . . a pace sparked by an aggressive, expansion-minded management.

Types of Insurance: The primary types of insurance written by NALAC are life and sickness and accident, both individual and group, with life accounting for about 70 per cent of total annual premium income.

Life Insurance in Force: In 1960, NALAC achieved its first billion dollars of life insurance in force. In April, 1964, the company reached the two billion dollar mark and, within four years, in September, 1967, passed $3 billion. This concerted emphasis on growth moved the company from 86th to 63rd in insurance in force during the 1960-66 period—a performance unmatched by any of the other top 100 U.S. companies listed in 1960, exclusive of mergers.

Industry Position: Today, North American ranks among the top 4 per cent of the more than 1,500 legal reserve companies in the United States and Canada.

Annual Gains: Except in 1948, the company has shown a net gain from operations every year since 1933. This better-than-average record was accomplished despite growing expenses generated by expanding sales. NALAC has been able to significantly lower the ratio of expenses to premium income, both on first-year business and total business. The improvement was fostered by a coordinated company plan featuring more effective sales effort, more efficient profit planning and the development of an integrated system of controls and management reports utilizing the most-up-to-date computer facilities.

Premiums: NALAC reported a record $38.2 million in premium income during 1966—up 9.4 per cent from 1965, 21.4 per cent from 1964 and 122.6 per cent since the beginning of the decade. The 1966 total included: individual life, $20.3 million, up 6 per cent; individual sickness and accident, $3.6 million, up 1.7 per cent; group life, $6.8 million, up 25.1 per cent; and group sickness and accident, $7.5 million, up 10.4 per cent. Another yardstick: the average annual premium per individual life insurance policy issued by the company in 1960 was $134. By 1964 the average had risen to $218, $244 in 1965 and $290 in 1966.

Policy Growth: Size of policies is an important element in measuring performance. In 1960, the average individual life insurance policy issued by North American was $10,966; by 1966, the average had more than doubled to $24,319.

Computer Accounting: Spurred by rapid growth that could have overwhelmed existing procedures, North American has developed the Datanamic accounting and reporting system to implement basic organizational changes. A major breakthrough in insurance company data processing methods, the high-speed computerized system carries automation far beyond usual premium and commission accounting application to give management a detailed overview of all operations, with particular emphasis on new-business activity. Daily, weekly, and monthly sales reports and monthly financial reports on an accrual basis pinpoint matters requiring immediate action and provide unprecedented flexibility in planning for the future.

NALAC Innovations: In its first year—1896—North American pioneered writing sickness and accident insurance in combination. Since that time, it also has made a number of innovations in the insurance industry, among them: health policies that pay lifetime accident benefits . . . dramatic reduction of term insurance rates . . . new health policies for employed women . . . making the "insurance age" the date of birth . . lower life insurance rates for women.

Growth Rate: North American's management believes that the company will maintain a growth rate exceeding that of the industry through rising sales volume generated by new offices opened in recent years, a continued expansion program and introduction of new rates and policies.

FINANCIAL RESULTS

North American has an outstanding record of gains from operations. In contrast to many fast-growing insurance companies that can report only small gains (or losses) in statutory earnings, North American has been able to absorb the large costs associated with placing a huge volume of new business on the books and report substantial net gains from operations. Since 1933, the company has shown a loss from operations only in 1948. In 1966, the company reported a net gain from operations of a record $2.4 million, up 72 per cent over 1965.

Premium Income

The chief factors contributing to this record have been the growth in volume of life insurance in force and the insurance in force and the increase in the average annual premium per individual life policy issued. Total premium income has risen steadily year by year. For the ten years 1957 through 1966, total premium income rose 173 per cent. Over the 1957-66 period, total premium income for all life insurance companies rose about 79 per cent.

First-Year Billed Life Premiums

Year	Individual Life	Per Cent Increase Over Prior Year
1966	$3,662,965	(5.8%)
1965	3,886,942	4.4
1964	3,724,457	18.7
1963	3,136,590	21.8
1962	2,575,439	53.0
1961	1,683,206	32.1
1960	1,273,727	4.5
1959	1,219,437	8.4
1958	1,125,055	10.9
1957	1,014,361	35.0

The table below illustrates the contribution of each basic form of coverage to total premium income:

Year	Individual Life (000)	Group Life (000)	Group S & A (000)	Individual S & A (000)	Total Premiums (000)	Per Cent Increase Over Prior Year
1966	$20,260	$6,832	$7,516	$3,581	$38,189	9.4%
1965	19,116	5,459	6,802	3,522	34,899	11.0
1964	16,485	5,028	6,606	3,331	31,450	20.0
1963	13,530	3,783	5,895	3,083	26,291	11.0
1962	12,253	3,146	5,397	2,891	23,687	13.0
1961	10,523	2,834	4,855	2,750	20,962	8.8
1960	9,597	2,598	4,533	2,537	19,265	12.1
1959	8,868	2,231	3,608	2,474	17,181	9.2
1958	8,429	1,741	3,206	2,351	15,727	12.5
1957	7,557	1,260	2,797	2,362	13,976	14.9

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In 1966, each basic type of insurance contributed to premium income as follows:

	Premium Income	Per Cent of Total
Individual Life	$20,259,881	53%
Group Life	6,832,156	18
Individual Sickness & Accident	3,580,875	9
Group Sickness & Accident	7,515,717	20
	$38,188,629	100%

Despite a slight drop in 1966 of first-year billed life premiums—caused largely by lower sales—the trend has been upward, increasing 261.1 per cent from 1957 to 1966.

Investment Income

NALAC's second major source of income is its return on invested funds, which represent invested capital and accumulated premium payments set aside to meet future obligations. The funds are invested primarily in mortgage loans and municipal bonds, and to a smaller extent in industrial bonds and common stocks.

As of the end of 1966, NALAC had cash and invested assets of $92,848,098, of which 63.2 per cent was invested in mortgage loans, 19.6 per cent in bonds, 5.4 per cent in preferred and common stocks, and the balance of 11.8 per cent in cash, company real estate, policy loans and miscellaneous items.

In March, 1963, the company received $9,201,660 from the sale of stock to the public. These funds were invested immediately to provide a source of income to finance further expansion.

In line with the growth of assets over the years, investment income has increased steadily. Net return on invested funds has increased as well. The table below illustrates NALAC's record over the past ten years:

Year	Cash And Invested Assets	Per Cent Increase Over Prior Year	Net Investment Income	Per Cent Increase Over Prior Year	*Net Yield
1966	$92,848,098	12.8%	$4,103,742	13.5%	4.77%
1965	82,339,046	10.7	3,616,783	10.9	4.69
1964	74,350,896	11.8	3,261,989	18.4	4.71
1963	66,490,897	29.9	2,756,073	23.6	4.58
1962	51,189,178	10.3	2,230,445	12.7	4.55
1961	46,396,846	13.5	1,979,400	18.0	4.47
1960	40,885,475	14.5	1,677,214	17.4	4.34
1959	35,701,913	13.9	1,428,838	21.6	4.22
1958	31,333,375	15.2	1,175,254	16.0	3.95
1957	27,206,824	13.2	1,012,850	3.9	3.84

*Before income taxes

In 1966, the company received close to 5.9 per cent on newly invested funds.

Net investment income increased 13.5 per cent in 1966, 107 per cent in the last five years and 321 per cent in the last ten years, during which the average annual increase was 15.6 per cent. Cash and invested assets increased 241 per cent between 1957 and 1966.

Costs and Expenses

Much of an insurance company's success hinges on its ability to control costs and expenses. Regulatory agencies require that such non-recurring items as commissions, medical and investigation expenses, as well as reserves, claims, overhead and other recurring costs be written off in the year in which a policy is written. The fact that North American has avoided losses from operations reflects management's ability to maintain tight control over costs.

First year costs on new business (commissions plus sales expense) typically exceed first-year premium income. On average, and varying according to the type of business underwritten, it is estimated that such costs may exceed 200 per cent of first-year premium income. Hence the operating statement of a firm aggresively placing an increasing volume of new business on its books is temporarily affected adversely.

The company has continued to reduce its ratio of sales compensation and direct sales expense to first-year billed premium income. In 1957, direct sales costs were 154.0 per cent of new premium income. By 1966 the percentage had declined to 123.

Payments to policyowners during 1966 were $18.3 million, compared with $16.8 million in 1965. Administrative expenses for 1966 amounted to 13.6 per cent of total premium income, compared with 12.7 in 1965, 13.7 in 1964, 14.0 in 1963 and 14.1 in 1962.

The slight increase in 1966 of administrative and direct sales expense was caused largely by start-up costs in the company's intensified pension and advanced underwriting program, as well as expenses resulting from the addition of offices in Boston, Los Angeles and Don Mills, Ontario. The fact that the increase was not higher is the result of NALAC's sustained program to improve reporting, methods and procedures as an integral part of a new accounting and reporting system. This program began in 1959, was advanced in 1962 with the installation of a large IBM 1401 computer and was completed in 1967 with the addition of a "third generation" 360-40 computer. Because of the comprehensive analysis undertaken in planning and installation, the new system is capable of providing information and processing accounts with a degree of efficiency few systems in the insurance industry can match.

Operating Income

As noted earlier, North American has reported a net gain from operations in every year since 1933, with the exception of 1948.

Despite the rapid acquisition of new business, and an attendent sharp increase in costs, the net gain from operations rose to $2,402,415 in 1966 from $1,398,337 in 1965.

Usually, a high rate of new business results in a decline in reportable income, a distinctive mark of the insurance business. New business does, however, create genuine value, though it is not immediately apparent.

Because the major portion of all costs associated with the acquisitions of new business is written off in the year of acquisition, the "profits" in this business are realized between the second year and maturity.

Furthermore, as assets are built up, investment income increases and further contributes to income and book value.

However, financial reports of insurance companies are written (by regulation or statute) to reflect the interests of policyowners, not stockholders. As a result, reported earnings (statutory earnings) reflect only the results of operations, and ignore the value, or profits which accrue to stockholders from the increase in the amount of insurance in force during the reporting period. Adding the net gain from operations to the value of the increases in insurance in force produces adjusted earnings, a figure that more accurately reflects the interest of the stockholder in the company's business.

Over the years, it has become possible to determine the value of various types of insurance and thereby derive adjusted earnings. Exact valuations cannot be set because the quality of the insurance varies from company to company,

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and some firms are operated more efficiently than others. On a conservative basis commonly used by insurance analysts, values may be assigned as follows:

$20 per $1,000 for whole life and endowment, $10 per $1,000 for term insurance, $3 per $1,000 for group, and 35 per cent of the increase in the unearned premium reserve for sickness and accident coverage.

Using this scale of value, adjusted earnings of North American in 1966 totaled $.82 per share (on 4,831,662 shares outstanding after giving effect to stock distribution of May 10, 1965), as contrasted to reported (statutory) earnings of $.50 per share. The 1966 decrease in adjusted earnings from $.94 in 1965, is attributed solely to the decrease in sales.

The following table indicates net gain from operations, statutory earnings and earnings adjusted for the estimated value of the increases in the amount of insurance in force during the year:

Year	Reported Net Gain From Operations	* Per Share	Value of Increase In Insurance in Force	Adjusted Income	* Per Share
1966	$2,402,415	$.50	$1,561,576	$3,963,991	$.82
1965	1,398,337	.29	3,126,169	4,524,506	.94
1964	1,020,272	.21	3,178,075	4,198,347	.87
1963	955,377	.20	3,202,981	4,158,358	.86
1962	449,224	.09	3,065,410	3,514,634	.73
1961	761,102	.16	1,347,422	2,108,524	.44
1960	1,013,258	.21	819,200	1,832,458	.38
1959	1,020,593	.21	620,458	1,641,051	.34
1958	568,790	.12	1,212,665	1,781,455	.37
1957	847,101	.18	1,247,753	2,094,854	.43

*On the basis of 4,831,662 shares. Adjusted for 4-for-3 stock distribution May 10, 1965.

Stockholders' Equity

As in the case of adjusted earnings, insurance in force has a value that contributes to stockholders' equity. Thus, in addition to capital, surplus and voluntary reserves, adjusted book value includes the value of the various forms of insurance in force on the basis of the ratios used in computing adjusted earnings.

Based on 4,831,662 shares currently outstanding, the company had an adjusted book value at the end of 1966 of $9.80, compared with $9.15 the year before.

Dividends

Cash dividend payments by most life insurance companies are deliberately kept low in order to increase retained earnings, which generate investment income and financial growth without resort to outside capital.

North American has an unbroken record of cash dividend payments reaching back to 1940. Stock dividends have been issued, from time to time, since 1927, including a 100 per cent dividend issued in 1957, and a 150 per cent dividend in 1962.

Cash dividends of $.10 per share were paid in May, 1966, and $.05 in May, 1965. A 6-for-5 stock distribution also was made in May, 1964, and the cash dividend of 1965 was followed by a 4-for-3 stock distribution. The Board of Directors intends to consider dividend payments in cash or stock, or both, on an annual or semi-annual basis depending on earnings.

Capitalization

On March 20, 1963, an offering of 1,065,000 shares of North American stock was made at a price of 19-1/2 through a national syndicate headed by Paine, Webber, Jackson & Curtis. Of the total number of shares offered, 520,000 shares were sold by the company for proceeds of $9,478,338 net of underwriting expenses. This increased the number of shares outstanding from 2,500,000 shares of $1.00 par value to 3,020,000 shares and increased the year-end capital and surplus from $6,959,215 to $16,437,553 pro forma.

Of the remaining 545,000 shares, 40,000 shares (acquired under option) were sold by the underwriter, 43,750 by other officers of the company, and the balance by H.P. Skoglund, president.

The shares sold by Mr. Skoglund represent a portion of the 750,000 shares acquired by him and others from Investors Syndicate of America. From the time North American had an agreement for the sale of insurance with Investors Diversified Services (May,1948), Investors Syndicate of America, an affiliate of IDS, held 30 per cent of North American's outstanding common stock. Purchase of the stock from Investors Syndicate eliminated its interest.

Following the public offering, Mr. Skoglund and officers and directors of the company together owned 21.75 per cent of the outstanding common stock.

At the annual meeting of May 4, 1965, shareholders authorized the company to double its capitalization from $5 to $10 million, evidenced by shares of $1 par value. The action makes possible further company expansion.

Details of NALAC's capital structure can be found in the financial statements at the end of this Fact File.

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BUSINESS

The main forms of insurance coverage offered by NALAC include individual life, group life and sickness and accident, both individual and group. Within these basic categories, individual policies come in a variety of forms, none of which, however, represents participating insurance (in which the policyholder has the right to dividends, or participation in future earnings); participating insurance has not been written by the company in the past 15 years.

In addition, the company markets a form of term insurance through investment companies, principally Investors Syndicate of Canada Ltd.

Although North American offers what might be called "standard" or "staple" items, the company also has helped initiate many new ideas in the insurance industry. New products or innovations introduced by NALAC during recent years include:

- Health policies that pay lifetime accident benefits
- Accidental death policies with principal sum to $100,000
- Loss-of-time policies that pay greater benefits over a longer period of time
- Non-cancellable health policies for women
- Health policies for employed women.
- Substantial reduction in rates on life insurance for women
- Dramatic reduction in term insurance rates culminating in a highly competitive product in the United States and Canada
- Liberalized coverage in the "substandard" field, making it possible for many people to get insurance protection for the first time
- Simplification of all policies so that "insurance age" changes on date of birth—not six months prior to birthdays, as with most other companies
- Extra-value factor introduced in all areas. This means the more insurance purchased by an individual in a single policy, the lower the rate per $1,000

Life Insurance

The basic gauge of progress in the insurance industry is the amount of insurance in force. This figure reflects the net amount of the life insurance coverage on the books of the company as of any given date.

North American recorded a gain in life insurance in force of $234,201,000 during 1966, or more than 9 per cent above the previous year.

Following is a table illustrating the breakdown of NALAC's life insurance in force as of the end of 1966:

	Amount	Per Cent of Total
Whole life & endowment	$ 427,464,000	15.1%
Term & other	1,399,171,000	49.5
Group	999,155,000	35.4
TOTAL	$2,825,790,000	100.0%

The following table indicates the company's yearly growth of life insurance in force between 1957 and 1966: (IN THOUSANDS)

Year	Whole Life & Endowment	Term & Other	Group	Total
1966	$427,464	$1,399,171	$999,155	$2,825,790
1965	387,418	1,375,492	828,679	2,591,589
1964	336,883	1,175,585	751,338	2,263,806
1963	290,418	1,003,085	582,688	1,876,191
1962	263,542	786,263	422,632	1,472,437
1961	242,931	544,844	367,722	1,155,497
1960	222,758	459,388	351,255	1,033,401
1959	202,537	446,525	295,290	944,352
1958	187,897	435,624	238,627	862,148
1957	164,109	392,948	170,284	727,341

As indicated in the preceding table, life insurance in force increased 369 per cent for the ten-year period 1957 through 1966. Over the same period, life insurance in force for all U.S. life insurance companies increased only 138.6 per cent.

During 1966, NALAC underwrote new life insurance with a face value of $462,336, a decrease of 23 per cent over the volume written in 1965, but an increase of 157 per cent over the volume written in 1957. The decline in 1966 is largely the result of lower term insurance sales which, in turn, reflected the nation-wide slump in new home construction.

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Sales of Life Insurance:

Year	Face Amount of Life Insurance Sold	Per Cent Incerase Over Prior Year
1966	$462,336	(23.5%)
1965	604,610	(2.3)
1964	618,951	9.7
1963	564,152	22.2
1962	461,699	109.3
1961	220,630	23.3
1960	178,965	14.9
1959 (1)	155,697	(24.3)
1958	205,649	14.5
1957	179,581	14.9

(1)The decline in 1959 reflects the reduction in new business derived from Investors Diversified Services, Inc.

Sickness & Accident Insurance

This form of insurance, written on an individual or group basis, provides protection to the insured against direct financial hazards resulting from accident or sickness. Hospital, surgical and medical expenses are the principal forms of coverage.

Unlike life insurance, S & A coverage cannot customarily be determined in advance. Therefore, the growth of S & A business customarily is measured in terms of premium income.

During 1966, NALAC's premium income from S & A insurance increased 7.5 per cent to $11,096,592, from $10,324,485 in 1965. Approximately 68 per cent of 1966 premium income represented group policies and 32 per cent individual policies.

The following table traces premium income from S & A over the last 10 years:

Year	Individual S & A Policies	Group S & A Policies	Total
1966	$3,580,875	$7,515,717	$11,096,592
1965	3,522,596	6,801,889	10,324,485
1964	3,330,669	6,606,583	9,937,252
1963	3,083,400	5,895,264	8,978,664
1962	2,891,446	5,397,684	8,289,130
1961	2,750,154	4,855,948	7,606,102
1960	2,537,458	4,532,517	7,069,975
1959	2,474,262	3,607,764	6,082,026
1958	2,351,337	3,206,816	5,558,153
1957	2,362,891	2,797,133	5,160,024

Insurance Sales Through Investment Companies

One facet of the company's business is the sale of term life insurance policies to purchasers of investment fund shares.

At the present time, such sales are made through agreements with Investors Syndicate of Canada Limited, and State Bond Mortgage Company. A similar agreement with Investors Diversified Services, Inc., was ended inasmuch as an IDS subsidiary company, formed in 1957, now provides this coverage on a national basis. However, insurance written while the agreement with IDS was in effect will remain on North American's books until maturity.

Approximately 88 per cent of the insurance in force under the agreement with IDS will mature in five to ten years, and the balance in less than five years.

The following table indicates insurance in force and premium income under these agreements as of the end of 1966:

	Insurance in Force	Premium Income
Investors Diversified Services	$ 80,329,000	$1,185,640
Investors Syndicate of Canada	119,739,000	790,089
State Bond and Mortgage Co.	4,634,000	29,642

Anticipated decline in new business derived through the agreement with IDS launched NALAC on the expansion program that has yielded such exceptional results. New offices were opened and staffed at a rate far in excess of the average for the industry. The success of the program has stimulated the entire organization to press for even greater gains.

Creditor Insurance

Creditor insurance is term insurance. It assures payment of a loan or installment purchase in the event of death or disability of the borrower.

Essentially, policies issued under the investment fund shares purchase program described in the preceding section are of this type. Financial outlets, through arrangements with NALAC's Special Risk Department, also issue mortgage insurance and loan coverage policies which are included in this category.

Creditor insurance in force in the United States exceeded industrial insurance for the first time in 1963. By the end of that year, creditor coverage had climbed to $43.5 billion compared with an industrial volume of $39.7 billion. In 1966, creditor insurance grew $5.7 billion to $62.7 billion, or 10.0 per cent; industrial was down $155 million, or .4 per cent.

Canadian Operations

In the ten-year period, 1957-1966, North American increased its total Canadian life insurance premium income 278 per cent, from $866,184 to $3,271,031. Life insurance in force for the period climbed from $114,408,000 at the end of 1957 to $387,183,000 in 1966, an increase of 238.4 per cent.

Sickness and accident premium income fluctuated from $1,810,604 in 1957, to $2,015,161 in 1958, dropping gradually to $1,235,560 in 1966.

North American serves Canada's 19 million people from 16 sales and service offices. The division's headquarters moved from Hamilton to the new 16-story North American Towers in suburban Toronto in March, 1966. Three additional offices to the Canadian organization were completed in 1965 and one added in 1966.

In the decade 1957-1966, life insurance in Canada grew from 114 per cent of national income to 191 per cent—largest in the world in this relationship. Total amount of insurance in force with that nation's 73 life insurance companies grew from $33 billion to $81.7 billion during the period.

ORGANIZATION AND CORPORATE DATA

Operating Divisions

NALAC's corporate organization is composed of twelve operating divisions: Sales, Group, Canadian, Investment, Office Services, Controller's, Underwriting, Actuarial, Claims, Policyowners' Service, Sales Promotion and Law. The division heads report directly to the chief executive officer, but each possesses authority to decide and act independently.

Sales Divisions

The Sales Division consists of four sales regions and two functional sales units. The company's home office in Minneapolis serves as the regional sales office for the U.S., and Toronto serves the Canadian region. In the two functional units, Brokerage Sales handles insurance directed to NALAC through insurance brokers and Creditor deals with creditor insurance

North American is licensed to do business in all ten provinces of Canada, the District of Columbia, New York for reinsurance only, and all other states.

Branch Office Operations

The company operates largely under the branch office system, and develops its own sales offices rather than using general agencies. In this way, control and supervision of overall operations is more effective, and the organization is more stable and cohesive.

At the present time, NALAC has 81 offices in addition to its Canadian and U.S. main offices. A total of 44 have been added since 1960.

Personnel and Officers' Biographies

At the end of 1966, salaried personnel totaled 498. Of this number, 328 were in home office administration, 86 in home office sales administration, and 84 in branch offices.

North American has more than 768 agents or field underwriters, about 267 of whom are full-time career agents who sell the company's insurance exclusively. All salesmen are on a straight commission basis. In addition to this field staff, NALAC has arrangements with more than 7,200 insurance brokers who place business with the company on a regular basis.

Howell P. Skoglund, Board Chairman, President and Executive Committee Chairman. Mr. Skoglund joined North American Life & Casualty Co., as President in 1933 after serving as Secretary and Sales Manager of the C.J. Hoigaard Co. also of Minneapolis. He was born July 5, 1903, in Starbuck, Minn., and was graduated in 1925 with a B.A. degree from St. Olaf College, Northfield, Minn.

Mr. Skoglund, listed in Who's Who and Who's Who in Insurance, is Past President, Health and Accident Underwriters Conference; member, Life Insurance Association of America, American Life Convention, Life Insurance Agency Management Association; Chairman, Board of Regents, St. Olaf College; President, Board of Trustees, Fairview Hospital, Minneapolis; and he is a member of the boards of North Central Airlines, Inc., Northwestern National Bank of Minneapolis, Minnesota Enterprises, C.J. Hoigaard Co., Naegle Advertising Co., Gold Bond Stamp Co., all of Minneapolis; M.S.L. Industries, Chicago; Pyroil Company, Inc., LaCross, Wis.; Vice President and Director, Raven Industries, Sioux Falls, S.D.; Mr. Skoglund is also operator of the 156,000 acre Two Dot Ranch, Cody, Wyo., and is treasurer and one-fifth owner of the Minnesota Vikings, National Football League team.

John C. Skoglund, Executive Vice President and in charge of Canadian Operations Executive Committee member and a Director. Mr. Skoglund, son of the company's Board Chairman, Chief Executive Officer and Executive Committee Chairman, was born February 27, 1933, in Minneapolis. He holds a B.A. from Colgate University and an M.B.A. granted in 1957 by Stanford University. He became NALAC's Director of Self-Completion Insurance in 1957, was named Agency Comptroller in 1958 and Assistant to the President in 1960. Two years later, he was appointed Vice President and Director. In 1964, he was named Vice President in charge of Canadian Operations and was promoted to Executive Vice President a year later. Mr. Skoglund is listed in Who's Who in the Midwest.

Carl A. Ernst, Senior Vice President-Sales. Mr. Ernst was born in St. Paul, Dec., 2, 1909. He has an extensive background in the life insurance field. From 1929 to 1942 he was assistant manager of the Minneapolis office of Reliance Life. In 1942, he joined NALAC and has served successively

Continued on next page

as field supervisor, director of sickness and accident insurance and vice president-special sales. He also managed offices for the company in Milwaukee and St. Paul. In May, 1965, he was elected senior vice president-sales.

Barton C. Burns, Senior Vice President-Operations. Mr. Burns holds a B.B.A. degree from the University of Minnesota and an L.L.B. from William Mitchell College of Law in St. Paul. He was employed in the Tax Department of Touche, Ross, Bailey & Smart, a national C.P.A. firm in Minneapolis, prior to joining NALAC in September, 1961, as Tax Counsel. He later was named Associate General Counsel and in August, 1966, was elected Senior Vice President-Operations. Mr. Burns is a member of the American Accounting Association, National Association of Accountants, American Institute of C.P.A.'s, American Bar Association, and the Association of Life Insurance Counsel. He is a past chairman of the Tax Conference Committee of Minnesota Society of C.P.A.'s and a member of the Life Insurance Industry's State Taxation Committee. He was born in St. Paul on October 6, 1933.

Welden S. Ingvaldson, Treasurer, head of the Investment & Office Services Division and Executive Committee member. A native of Fessenden, N.D., Mr. Ingvaldson was born Sept. 11, 1917. He was graduated from St. Olaf College with a B.A. in economics and history in 1939. In that year he went with the Lutheran Brotherhood in Minneapolis, leaving in 1953, as the officer in charge of investments to assume his present position at NALAC.

Ralph I. Oasheim, Vice President and Controller, and head of the Controller's Division. Mr. Oasheim was born in Minneapolis on Dec.31, 1918, and was graduated from the University of Minnesota in 1947 with a B.B.A. degree. He was named Assistant Treasurer at NALAC in 1950 and subsequently held the posts of Assistant Secretary, Assistant to the President and Controller. He is a Fellow, Life Management Institute, and a member of the Mid-Central Planning Committee and the Financial Reports and Controls Committee of the Life Office Management Association, The Quality Business Committee of the Life Insurance Agency Management Association and the Financial Executives Institute. He is a director of the Minneapolis Area Thrift Committee.

I.W. Kimmerle, Secretary and head of the Policyowners' Service Division. A native of Osseo, Minn., Mr. Kimmerle was born Aug. 13, 1909. He majored in accounting and statistics and was graduated from the University of Minnesota in 1931 with a B.B.A. degree. The following year he joined Northwestern National Life Insurance Co., Minneapolis, leaving in 1945 as Office Manager. In the next year he served as Controller of United Refrigerator Co., St. Paul. At NALAC he was Office Manager from 1946 to 1948, became an Assistant Vice President in 1948, was named Treasurer in 1950 and Secretary in 1953. Mr. Kimmerle is listed in Who's Who in Insurance and is active in the Life Office Management Association, Insurance Accounting and Statistical Association and the National Office Management Association.

Ward H. Beall, Underwriting Vice President and head of the Underwriting Division. Mr. Beall was born in Washington, D.C., on August 19, 1914. He was graduated from George Washington University in 1937 with a B.S. and later attended Georgetown University for three years. From 1946 to 1948 he served as assistant chief underwriter of Acacia Mutual and then joined NALAC as Underwriting Director. He has been Underwriting Vice President since 1952. Mr. Beall is a member of the Individual Insurance Committee of the Health Insurance Association of America. He is former chairman of the Joint Examination and Education Committee of the Institute of Home Office Underwriters and the Home Office Underwriters Association. He is also a member of the executive council of HOUA.

H.E. Copps, Vice President-Claims, head of the Claims Division. Mr. Copps was born in Fond du Lac, Wis., on August 30, 1907. He was graduated from the University of Minnesota in 1930 with a B.A. and in 1932 was granted an L.L.B. from the University's Law School. During 1932-33, Mr. Copps worked in the Minneapolis City Attorney's Office and entered private law practice the next year. He was a

Claim Investigator, Claim Adjuster and Supervising Adjuster with Travelers Insurance Co. in St. Paul and Minneapolis from 1934 to 1946. Since that time, his positions at NALAC have included Assistant Claims Manager, Assistant Vice President and Second Vice President of Claims, and Vice President and Director of Claims. He is an Executive Committee Member of the International Claim Association; and serves in various executive and committee posts on the Health Insurance Council; Canadian Life Officers Association; Twin City Life and Health Association, the Hennepin County, Minnesota State and American Bar Associations.

Ronald E. Ryan, Actuary and head of the Actuarial Division. Mr. Ryan was graduated from the University of Western Ontario in 1952 with a B.A. in Honor Mathematics and Physics. He was with the London Life Insurance Company until joining NALAC as Actuarial Assistant in 1962, and was appointed Assistant Actuary in 1964, Associate Actuary in 1965 and Actuary in 1966. He is a Fellow of the Society of Actuaries and a member of the Academy of Actuaries and the Canadian Institute of Actuaries. Mr. Ryan was born in London, Ontario, April 10, 1931.

CORPORATE DATA

Stock Transfer Agents:	First National Bank of Minneapolis Bankers Trust Company, New York
Registrars:	Northwestern National Bank, Minneapolis Morgan Guaranty Trust Co., New York
Auditors:	Arthur Andersen & Co., Minneapolis
Legal Counsel:	Maslon, Kaplan, Edelman, Joseph & Borman Minneapolis
Public Relations Counsel:	Gardner, Jones & Cowell, Inc., Chicago

HISTORY

The company was originally incorporated in Minnesota on April 15, 1896, with James Sullivan as president and Henry M. Little as secretary. In those days the secretary of an insurance company managed the business, so Sullivan's title was nominal. Little was a conservative New Englander from Vermont, who formerly had been a small-town merchant.

The young firm was organized to write life and casualty insurance on the assessment plan, which meant simply that premiums could be increased from time to time. North American Casualty Company, as it was then known, was the first company to insure policyholders against loss of time from work by offering sickness and accident policies written in combination. The first policy issued called for monthly premiums of $2.00, a weekly accident benefit of $25.00, weekly sickness benefit of $18.00 and a death benefit of $100.00. Incidentally, Little apparently followed the sell-to-the-family maxim of budding insurance salesmen. The first policyholder was his brother, Frank E. Little, insurance agent for New York Life Insurance Company.

In 1912, the company reinsured the business of the Plymouth Casualty Company and North American Life Association, both of Minneapolis, and the articles of incorporation were amended, changing the name to its present form, North American Life & Casualty Company (NALAC). At the same time, the corporation was transformed into a legal reserve, level premium life and casualty insurance company.

At the time of the consolidation, Zeke Austin, who had been head of the North American Life Association, became president of the new company. On Sept. 1., 1915, NALAC received a license to issue life, health and accident insurance as a stock company, with a fully paid-up capital stock of $100,000. Austin had the misfortune to manage the business during years of extreme hardship for insurance companies. Major deterrents to growth in this period were World War I, during which all insurance business suffered, and the introduction of workmen's compensation which cut into company's loss-of-time business. Except for an agency in Minneapolis and one in St. Paul, all of NALAC's sickness and accident business was written in rural communities, mostly on farmers. No concerted effort was made to promote the life insurance programs and economic conditions deteriorated in farming areas following the war. Life insurance in force at NALAC in 1920 stood at $1,302,027.

In 1928, T.O. Burge became president. During his administration, participating and non-participating life insurance policies were initiated by the company. However, the new development had slight impact on sales as significant growth was next to impossible for a small insurance company in the depression years.

The hard-pressed organization had 7 home office employees and 120 sales agents when H.P. Skoglund, former secretary and sales manager for a canvas goods manufacturing company, became president in 1933. Life insurance in force on May 1, 1933, was $1,991,000 and total annualized sickness and accident premiums were $26,000.

The new chief executive had a host of problems to whip. The company's financial structure was shaky. Bonds were in default, mortgages were in arrears, salesmen were even accepting insurance applications from people who were standing in breadlines—and the salesmen were getting cash advances on those applications.

Skoglund established personnel, financial and payroll procedures on sound administrative lines. Above all, he organized a competent sales force and launched aggressive sales promotions. He made "SALES" the cornerstone of NALAC's new operating philosophy.

The company introduced low-premium life, sickness and accident plans which fit the pocketbook of the times and gave the reorganized sales team confidence in products that could be sold. The policy innovations were only the first of many for NALAC and they proved to be valuable steps for the sorely troubled firm. The new president took to the field to spark the sales force. Branch offices were soon opened and where such facilities didn't exist, street corners and building lobbies were used for sales meetings.

In 1933, the company absorbed the business of both the Union National Insurance Company and the Scandanavian Good Templars Sick Benefit Association of Minneapolis. In 1935, the Supreme Casualty Company, Milwaukee, was reinsured, followed in two years by the Minneapolis-based Equitable Mutual Insurance Company, all very small companies. Total premiums involved in these companies were approximately $35,000 with assets of $12,000.

Home office morale was given a boost in 1935 when the company was moved from its dingy quarters in downtown Minneapolis to the Clark estate on Park Avenue. The company was one of the first commercial businesses to enter an

Continued on next page

upper income residential area in the Twin Cities.

For many years, NALAC had sold hospital insurance as a supplement to the loss-of-time benefit. In 1938, the company offered hospital and surgical benefits to men, women and children, a move which broadened prospect lists considerably because applicants weren't required to qualify for loss-of-time benefits. Immediate success of the plans permitted the company to expand operations over the next several years throughout most of the United States and Canada. In addition, NALAC was able to extend the coverages to large group insurance plans, both life and sickness and accident. The company's salesmen soon found sickness and accident policyholders were prime candidates for life policies as well. As a result, sales began to climb. By 1941, NALAC had $13 million of life insurance in force.

A most important move occurred in 1948 with the construction of a four-story, 100,000-square-foot home office building on Hennepin Avenue in Minneapolis. The site was purchased from the Walker family, patrons of the Walker Art Center which is adjacent to the NALAC building. Just to the rear of the company's property is the ultra-modern Tyrone Guthrie Theatre, whose audiences use the NALAC parking lot.

The turning point in the modern development of the company came in 1948 through an association with Investors Diversified Services, Inc., the nation's largest investment fund. The company provided term life insurance for people purchasing investment fund shares and certificates on the installment plan. IDS sold NALAC policies with their sales force. That gigantic step put NALAC firmly on the profit side of the ledger.

The marriage ended nine years later, in 1957, when the IDS's management decided to enter the insurance field and began to underwrite coverage through a subsidiary. However, what appeared at first to be a staggering blow was actually a blessing.

Realizing a tremendous sales increase would be needed to make up for the loss of IDS business, a new aggressive sales effort was launched which is continuing and has made NALAC the growth company it is. The company opened and staffed new offices at a rate far in excess of the industry average to compensate for the anticipated loss of business. An affiliate of IDS owned 30 per cent of North American's stock. To remove that competitive edge, Skoglund repurchased the shares in 1962. The action worked like a shot of vitamins. Sales were revitalized. Morale soared.

The success of the expansion program is evident in the company's financial statements. In 1950, NALAC had $100 million of life insurance in force, by 1956, $600 million and in 1960 the billion dollar mark was passed. The company topped $2 billion in 1964 and $3 billion in 1967.

Today, NALAC has 114 well-defined areas of responsibility. Results from these areas are fed to a highly sophisticated computer system—probably the most refined in the industry—then results are relayed to the nine division heads and ultimately to the Chief Executive Officer.

The pace at NALAC is quickening. New offices are being opened at a rapid rate, financed by income on investments from a $9.2 million public stock offering in March of 1963. The management team is developing new, lower-cost policies that are custom tailored—as in the Thirties—to fit the needs of buyers. Emphasis is still on life insurance which represents more than 70 per cent of the company's premium income. The full product line includes all forms of personal insurance, both individual and group, life, sickness and accident.

In nearly every category, the company's fiscal trend lines exceed the industry's by wide margins as they have since 1962. Management expects no let-up in the forseeable future.

GLOSSARY

BROKER – A sales and service representative who handles insurance for his clients, generally selling insurance of various kinds and for several companies.

CONVERTIBLE TERM INSURANCE – Term insurance which can be exchanged, at the option of the policyholder and without evidence of insurability, for another plan of insurance.

CREDIT LIFE INSURANCE – Term life insurance issued through a lender or lending agency to cover payment of a loan, installment purchase or other obligation, in case of death.

ENDOWMENT INSURANCE – Insurance payable to the insured if he is living on the maturity date stated in the policy, or to a beneficiary if the insured dies prior to that date.

EXTENDED TERM INSURANCE – A form of insurance available as a non-forfeiture option. It provides the original amount of insurance for a limited period of time.

FAMILY POLICY – A life insurance policy providing insurance on all or several family members in one contract, generally whole life insurance on the husband and smaller amounts of term insurance on the wife and children, including those born after the policy is issued.

GROUP LIFE INSURANCE – Life insurance issued, usually without medical examination, on a group of persons under a single master policy. It is usually issued to an employer for the benefit of employees. The individual members of the group hold certificates stating their coverage.

HEALTH INSURANCE – Protection against the costs of hospital and medical care or lost income arising from an illness or injury. Sometimes called Accident and Sickness Insurance, Accident and Health Insurance, or Disability Insurance.

INDUSTRIAL LIFE INSURANCE – Life insurance issued in small amounts, usually not over $500, with premiums payable on a weekly or monthly basis. The premiums are generally collected at the home by an agent of the company.

LAPSED POLICY – A policy terminated for nonpayment of premiums. The term is sometimes limited to a termination occurring before the policy has a cash or other surrender value.

LEGAL RESERVE LIFE INSURANCE COMPANY – A life insurance company operating under state insurance laws specifying the minimum basis for the reserves the company must maintain on its policies

LIFE INSURANCE IN FORCE – The sum of the face amounts, plus dividend additions, of life insurance policies outstanding at a given time. Additional amounts payable under accidental death or other special provisions are not included.

MAJOR MEDICAL EXPENSE INSURANCE – Policies especially designed to help offset the heavy medical expenses resulting from catastrophic or prolonged illness or injury. They provide benefit payments for 75-80% of all types of medical treatment by a physician above a certain amount first paid by the insured person and up to the maximum amount provided by the policy–usually $5,000 or $10,000 or higher.

ORDINARY LIFE INSURANCE –Life insurance usually issued in amount of $1,000 or more with premiums payable on an annual, semi-annual, quarterly, or monthly basis. The term is also used to mean straight life insurance.

POLICY LOAN–A loan made by an insurance company to a policyholder on the security of the cash value of his policy.

POLICY RESERVES – The amounts that an insurance company allocates specifically for the fulfillment of its policy obligations. Reserves are so calculated that, together with future premiums and interest earnings, they will enable the company to pay all future claims.

STRAIGHT LIFE INSURANCE – Whole life insurance on which premiums are payable for life.

SURGICAL EXPENSE INSURANCE – Policies which provide benefits to pay the cost of operations.

TERM INSURANCE – Insurance payable to a beneficiary at the death of the insured provided death occurs within a specified period, such as five or ten years, or before a specified age.

UNDERWRITING – The process by which an insurance company determines whether or not and on what basis it will accept an application for insurance.

WHOLE LIFE INSURANCE – Insurance payable to a beneficiary at the death of the insured whenever that occurs. Premiums may be payable for a specified number of years (limited payment life) or for life (straight life).